


AR12

Mindamar Energy Resources Limited

ANNUAL REPORT 1973





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MINDAMAR ENERGY RESOURCES LIMITED

34 Adelaide Street West
Toronto, Ontario, Canada

Officers and Directors (Mindamar)

E. T. Donaldson, *Chairman and Director*
W. V. MacInnes, *President and Director*
B. W. Donaldson, *Secretary*
G. D. Pattison, *Assistant-Secretary*
R. D. Bell, *Treasurer*
W. C. Campbell, *Director*
E. F. Durkee, *Director*
D. W. Falconer, *Director*
D. W. Knight, *Director*
F. G. Townsend, *Director*

Caliph Resources, Inc.

(U.S. Wholly Owned Subsidiary of Mindamar)
Suite 1120, One Energy Square
Dallas, Texas 75206

Officers and Directors (Caliph)

W. V. MacInnes, *President and Director*
Taylor Pruitt, *Executive Vice-President
and Director*
C. A. Martin, *Vice-President, Exploration*
E. T. Donaldson, *Director*
B. W. Donaldson, *Secretary and Director*
R. W. Scroggins, *Treasurer
and Assistant Secretary*

Transfer Agent and Registrar

Guaranty Trust Company of Canada, Toronto

Auditors

Clarkson, Gordon & Co. (Canada)

Legal Counsel

Day, Wilson, Campbell (Canada)
Davies, Ward & Beck (Canada)
Shank, Irwin, Conant, Williamson & Grevelle
(United States)

Banking

The Canadian Imperial Bank of Commerce
(Toronto)
The Toronto-Dominion Bank (Toronto)
Republic National Bank of Dallas
(United States)

Stock Exchange Listing

The Toronto Stock Exchange

Directors' Report to Shareholders

The Directors are pleased to submit herewith the Company's Annual Report including its Consolidated Financial Statements for the year ended December 31, 1973. Also enclosed is a form of Proxy and a Notice of Annual and Special General Meeting together with an Information Circular outlining the matters to be voted on for approval at the Meeting.

The activities of the Company which are presented cover the last fiscal year and up to the date of preparation of this Report. A number of significant developments have taken place since early 1973, and consequently it is important that those undertakings commenced in 1973 be reported on as to their current status.

In 1973 the Company acquired many new shareholders. This reflects the fact that the Company has been revitalized and has entered a new field of endeavour. Incorporated in 1950 under the name of Mindamar Metals Corporation Limited, the Company actively participated during the 1950's in the development and production of a base metal operation in Nova Scotia in association with Dome Mines Limited. After the deposit became non-commercial, the Company remained inactive for many years.

Early in 1973 the Company embarked upon a program of oil and gas exploration and development in the United States and it again acquired a degree of operational activity reminiscent of its earlier days. International, political and economic factors, which have influenced the price and supply of hydrocarbons, and the restrictions on production and the lack of incentive to explore in certain areas of the world, have led your Directors to the decision to initiate oil and gas operations in the U.S. To the new shareholders who have joined the Company because of the change and the increased tempo in activity, we extend our welcome.

Highlights

The re-organization of the Company in the past year included the following significant events:

1) Caliph Resources, Inc. was formed in early 1973 as a wholly owned U.S. Subsidiary. Since its formation Caliph has acquired a number of prospective and producing properties.

The prime accomplishment has been the discovery of what is known as the Lipan Gas Field located approximately 50 miles south-west of Fort Worth, Texas. The main thrust of the Company is presently the development and operation of this field.

2) In mid-1973 a gas contract was signed with the Texas Utilities Fuel Company to take gas from the Lipan Field over a 20-year period commencing November 1, 1973, at an effective price of 78¢ per thousand cubic feet. Built into the agreement are provisions for escalations of price.

3) The Company, at its last Annual Meeting, received the approval from shareholders to change its name from United Mindamar Metals Limited to Mindamar Energy Resources Limited and to increase its authorized capital stock from 5 million shares to 7.5 million shares of no par value.

4) Major equity financing and exercise of share options raised approximately \$3,485,000 from the sale of 2,058,823 shares during the year.

Subsequently, further financial arrangements were made with International Mogul Mines Limited to provide additional funds in the amount of \$850,000 from the sale of shares. In addition International Mogul guaranteed a bank loan for \$2.5 million.

5) In February 1974, at a Special General Meeting of shareholders, an increase in the Board of Directors of your Company from five to seven members was approved. At that

time, representatives of International Mogul were elected to the Board, and we believe this will make a positive contribution to the management of your Company.

6) Prior to January 1974 the technical management of the Company was supplied by Gulfstream Resources S.A. out of its Denver office. Early in January the Company opened its own office in Dallas, supported by personnel with extensive experience in land acquisition, exploration and engineering.

The original involvement of Mindamar in Texas was at first undertaken on its own behalf in early 1973. After the drilling of the first ten wells, Gulfstream Resources S.A. became a participant. In November 1973 these companies were joined by International Mogul Mines Limited through its acquisition of an over-riding royalty and a working interest in the Lipan acreage holdings. At the same time the Group significantly increased their holdings to approximately 9,200 acres in the Lipan area with the acquisition from Wes-Mor Drilling, Inc. of the Aldenhoven and Gregg leases. These leases include four gas wells and a large number of potential well sites.

For the year under review and during the early months of 1974, Mindamar, as a new oil and gas exploration company, made significant financial commitments. Since the beginning of 1973 to April 1974, the Company has expended on its own behalf an amount approaching \$4,250,000. This expenditure has provided the Company with excellent representation and participation in several U.S. oil and gas basins, has obtained international areas of interest, and more importantly has given the Company control of significant in-place gas reserves within the Fort Worth Basin.

The development of the Lipan Field has unfortunately been delayed by a country-wide shortage of pipe and casing needed to complete the necessary wells. This problem has now been overcome and development drilling resumed during the third week in May.

The sale of Lipan Field gas commenced February 28, 1974 and while income has been minimal to date it is expected to increase rapidly in the months ahead as the development program proceeds. An increasing cash flow in 1974 and 1975 will provide your Company with the funds to permit it to continue an aggressive exploration program for oil and gas.

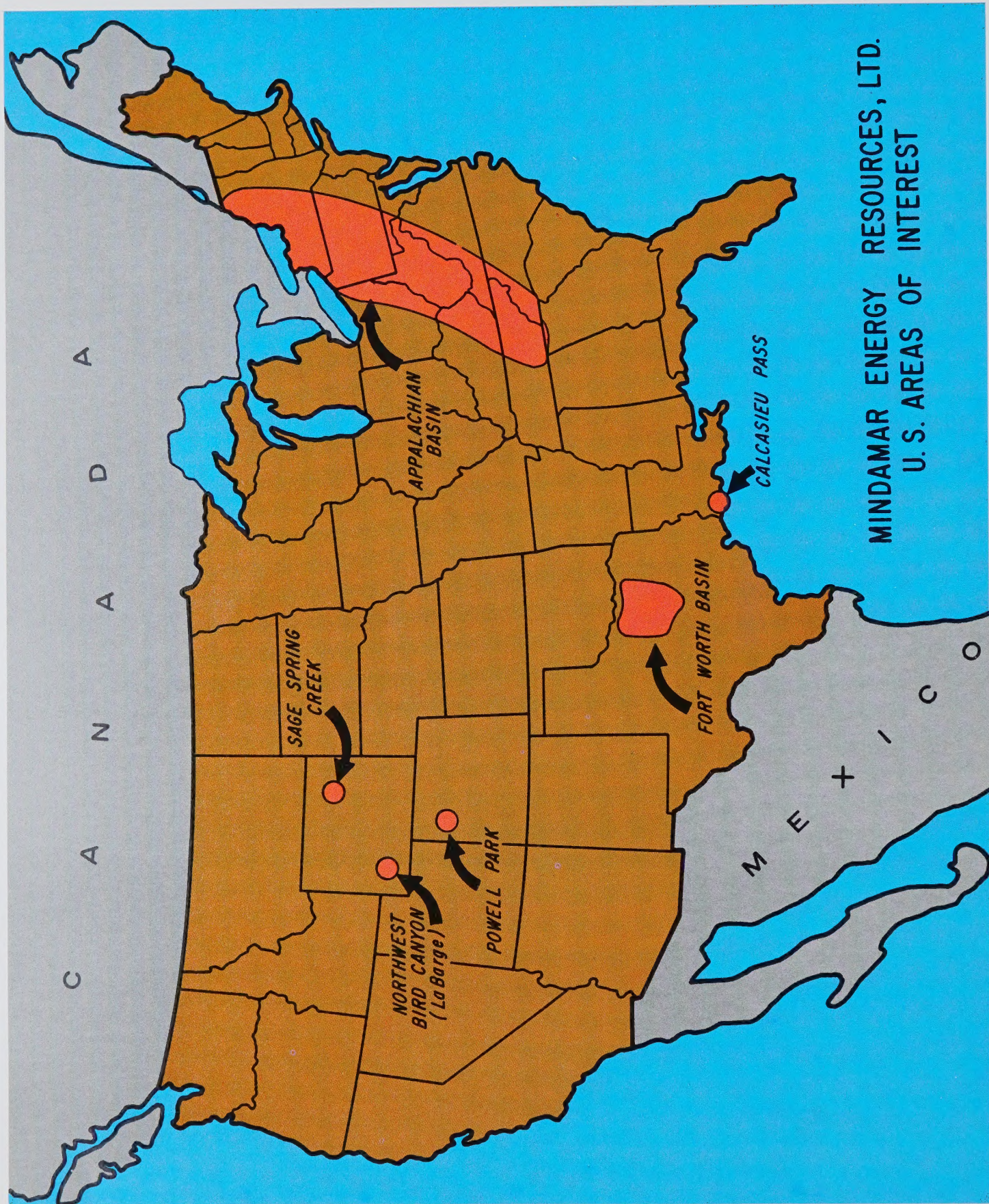
It is with regret your management has accepted the resignation of Edward F. Durkee, the Executive Vice President of Mindamar, because of other commitments undertaken by him. We do, however, extend our welcome to the new employees who have joined your Company and we are pleased with the manner in which they have accepted the challenge towards making Mindamar a successful developer and explorer of oil and gas.

Respectfully submitted on behalf of the Board of Directors,

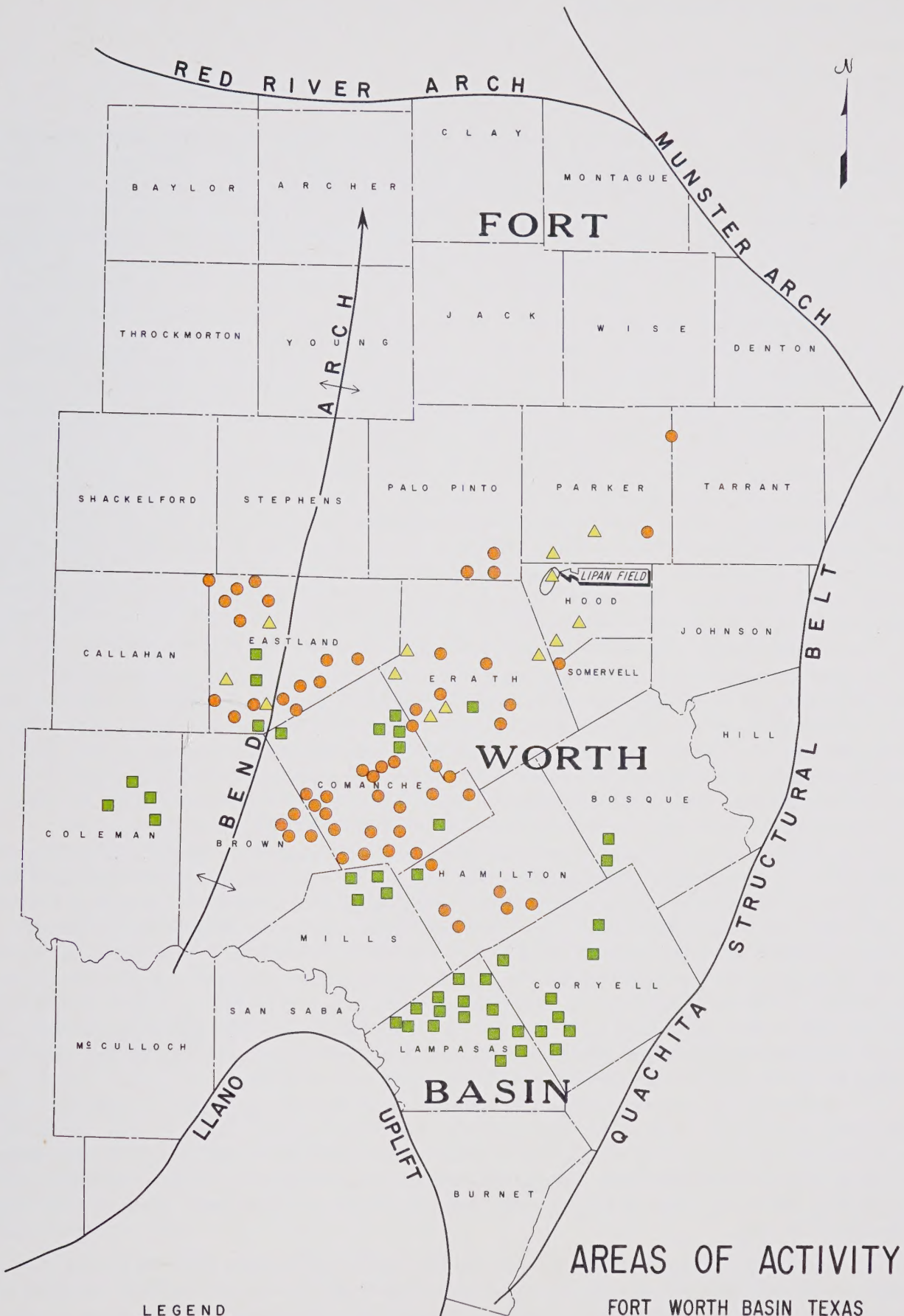
Evan T. Donaldson,
Chairman.

William V. MacInnes,
President.

Toronto, Canada
May 27, 1974.



MINDAMAR ENERGY RESOURCES, LTD.
U.S. AREAS OF INTEREST



Production and Development

Texas

Lipan Field Development

The presence of a potentially productive Pennsylvania sandstone in the Lipan area was known prior to 1973 because six wells in the general area, drilled between 1950 and 1971, had strong indications of gas. Actual development and production did not proceed because of low gas prices and the fact that the gas bearing intervals were regarded as tight, having low porosity and permeability. However, the intervening period brought into existence new completion techniques and higher gas prices for intrastate gas. To date Mindamar has drilled 24 gas wells and will commence a program in mid-May to drill at least 30 more wells within the known limits of the field.

The Lipan Field is geologically sited on the west flank of the Fort Worth Basin and is acknowledged to be in a good regional location for hydrocarbons. Rocks in the Lipan area range from Cretaceous to Ordovician in age. Earlier studies of Lipan indicate a gentle north trending anticline in Pennsylvania rocks. Drilling has demonstrated that based on a fairly reliable marker above the 3,000 foot zone the Lipan anticline is one of the most significant features in this portion of the Fort Worth Basin with more than 500 feet of structural relief.

The middle Pennsylvanian age sediments, which are the principal horizons of interest in the Lipan area, are approximately 4,500 feet thick and consist of gray carbonaceous shales interbedded with fine-to-medium-grained sandstones and an occasional thin limestone. The sandstones are lenticular and, therefore, while certain significant reservoirs extend between wells, for some distance, other sandstones are not so continuous. Some reservoirs which are well developed at structurally high positions are less well developed on the flanks of the anticline. While there are numerous gas bearing zones within the Company's holdings at various depths, sizable reservoirs have been developed in what are known as the 500, 3,000, 3,500, and 4,000 foot zones.

The major portion of the reserves have been calculated from two of the lower zones. The 3,000 foot zone has an average of about 80 feet of net effective pay over approximately 4,000 acres. The deeper wells, drilled to the 4,000 foot zone, have net effective pays of 200-350 feet in two separate intervals. Reserves in this interval should cover approximately 8,000 acres. In all, management is of the opinion that extractable reserves of 150 billion cubic feet exist on the Mindamar acreage. Depending on the success of the completion techniques now being employed, these reserves could be significantly higher as the overall program proceeds.

The drilling and completion techniques employed by a previous operator in 1973, who was replaced in November 1973, were not performed in accordance with methods which management feels could have developed optimum production from the zones tested. Since November, two holes which have been completed using larger diameter casing and more sophisticated completion methods have provided considerably better results. The wells drilled prior to November have been slow in cleaning out, thus retarding the flow of gas into the gathering system. A major workover program for these wells is under way and it is expected that their productivity will be improved. At the present time, 13 wells are tied into the gathering system, but because of the problem of cleaning out the wells only nine wells are on continuous production. During the month of May the gathering system is being extended to put a further seven wells on line.

Gas production into the pipeline during the month of March totalled about 25 million cubic feet and reached 26 million cubic feet in April. Production for the month of May should be substantially higher. Income will also be available under the 'take-or-pay' clause of the Texas Utilities contract as that Company did not have its pipeline and gathering system completed and functioning to receive gas until February 28, 1974. The commencement date in the contract was November 1, 1973.

Because of the complexity of the interests held by the participants in the field, and varying production rates from one part of the field as compared to another, it is difficult to estimate Mindamar's net revenue interest. However, it appears that Mindamar's aggregate net revenue interest in the total Lipan Field will be slightly higher than 50%.

Calcasieu Pass, Cameron Parish, Louisiana

In association with the Jake L. Hamon interests, Mindamar (43.75%) and its partners obtained a 25% Working interest in a well drilled in the Calcasieu Pass Field. Thirty-five feet of effective pay is indicated from a gas sand interval at a depth of 10,756 feet. The well on test suggests a production rate of 2 million cubic feet of gas and 2.5 barrels of condensate per day. Production should commence within a few weeks. Reserves are estimated at 6-8 billion cubic feet of gas.

EXPLORATION

The Company during the year participated in the drilling of six wildcat wells in Texas, Louisiana, Colorado and Arkansas, none of which were successful. Currently, exploration is being undertaken in a group comprised of Mindamar, International Mogul, and Gulfstream Resources S.A., each company participating with various percentage interests.

I. Texas

Three ventures of some size have been undertaken with L. Frank Pitts and associates, two of which are in the Fort Worth Basin. Mr. Pitts is a well known independent oil and gas operator who has been very aggressive in the acquisition of acreage in the Fort Worth Basin and who is mainly responsible for the development of two large Fort Worth Basin gas fields which have recently been placed on production. The agreements with the Pitts Group relating to the Fort Worth Basin can be summarized as follows:

1) Pitts Dorchester Agreement — This agreement permits the group to take a 1/6 interest (Mindamar interest is 25% of the group) in approximately 250,000 acres within the Fort Worth Basin divided into thirty separate blocks; Ten — A Blocks, Ten — B Blocks, and Ten — C Blocks. A 50% interest is held jointly by Dorchester Petroleum Exploration, Inc., Home Oil Company, and Southland Royalty Company who have committed to drill ten wells on the "A" Blocks. The Dorchester Group are currently drilling their sixth well in the "A" Blocks, but have not yet made a discovery. Two of the wells encountered potential producing sands. One of the wells was not productive when tested, but the second has two zones of interest which require evaluation to determine their potential. The Dorchester Group has indicated it will proceed with the drilling of ten wells on the "B" Blocks. Our group has no financial obligation in any of the drilling commitments but will have the right to participate in the drilling of offsetting checkerboarded acreage when a discovery is made.

2) Pitts Fort Worth No. 2 Agreement — This agreement involves another major exploratory venture in the Fort Worth Basin. Approximately 150,000 acres are involved and the group (Mindamar has 50% of the group interest) earns a 50% interest in 75,000 acres by the drilling of six wells on what is known as the 6 — "A" Blocks with the option to drill a further six wells on what will be known as the "B" Blocks, totalling an additional 75,000 acres. Drilling on the "A" Blocks has commenced.

Other Exploration Activities in Texas

A well has recently been drilled on the Bluffdale acreage block southwest of Lipan in Erath County. This well, now abandoned, encountered some slight shows of oil in the Ordovician Ellenberger formation.

Further exploration in the Fort Worth Basin will involve at least six wells to be drilled on what is known as the Pope-Hopkins acreage. The blocks lie not far from the present limits of the Lipan Field. Mindamar also controls (75%) a large block of acreage northeast of Lipan in Parker County, known as the Tintop Area. This area has a high exploration potential and will soon be tested.

II. Appalachia

This agreement permits the group to participate with Pitts and associates on a 50/50 basis (Mindamar interest is 25% of the group interest) in the acquisition of leases in certain areas in the Appalachian Basin, which extends from Alabama to New York. At present, field crews are attempting to acquire leases in Kentucky and Virginia.

III. Rocky Mountain Area

At the present time the Company, in association with Gulfstream Resources S.A., has a drilling proposition pending from Michigan-Wisconsin Pipeline Company to drill a deep well on the Powell Park acreage in Rio Blanco County, Colorado. It is expected that an agreement will be signed with Michigan-Wisconsin and that a well will be drilled during 1974. Mindamar and Gulfstream Resources S.A. will obtain a refund of amounts previously expended and will have a well drilled to a depth of 12,500 feet with the operator carrying a 50% working interest in the property.

Other interesting prospects are held in Northwest Bird Canyon, Sublette County, Wyoming and in North Sage Spring Creek, Natrona County, Wyoming.

In what is known as the Southeast Big Piney-LaBarge area of Sweetwater County of Wyoming, the group (Mindamar interest is 43.75% of the group) has acquired a 25% participation in a 20,000 acre play on which a commitment to drill five wells in 1974 has been made. The other participants in this venture are Amax — 25%, Southland Royalty — 25%, and Wolf Energy — 25%.

IV. Overseas

Mindamar is represented in several international areas of importance to the oil and gas industry, including the Middle East and the North Sea.

1) Qatar, Arabian Gulf

Mindamar has a five per cent working interest in a consortium exploring 3,500 square miles off the northeast, north and western coasts of Qatar. The exploration venture includes Koch Industries of Wichita, Kansas, one of the world's largest independent refiners, and several West German companies among which is Wintershall, operator for the consortium.

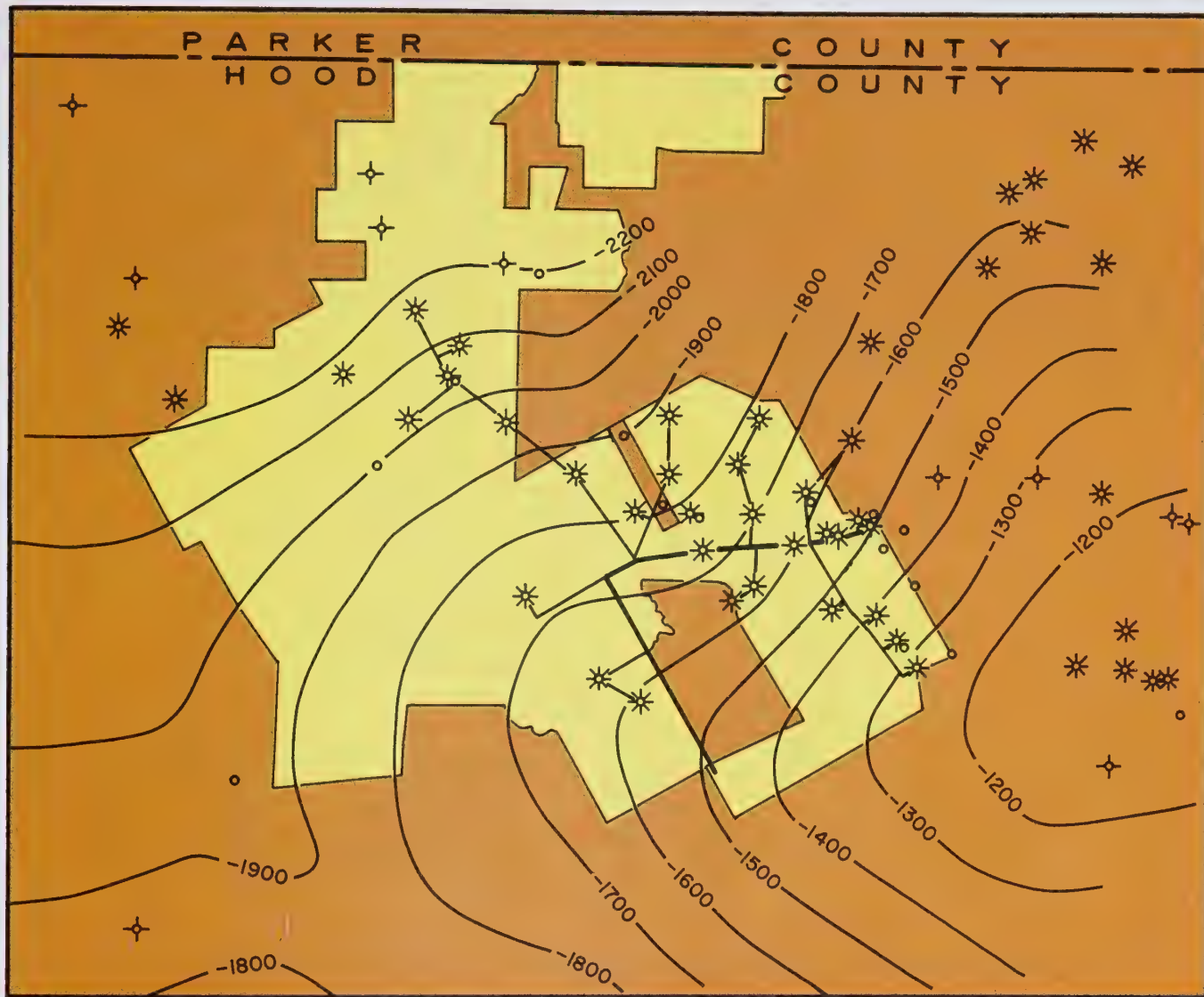
A marine seismic program of more than 4,000 line kilometers was completed in April, 1974. Final interpretations are being made. Preliminary examination indicates drillable prospects are present. There is a possibility that a prospect will be delineated on trend with the giant on-shore Dukhan Field. A well location will be announced before the end of the year.

2) Dutch North Sea

Mindamar is the owner of a five per cent working interest in licenses H-6 and G-15 totalling 110,000 acres. A marine seismic survey was completed on these blocks in mid-March 1974, and final interpretations are now in progress. Any drillable structures that this work might reveal will be of considerable exploration significance.

3) Irish Offshore

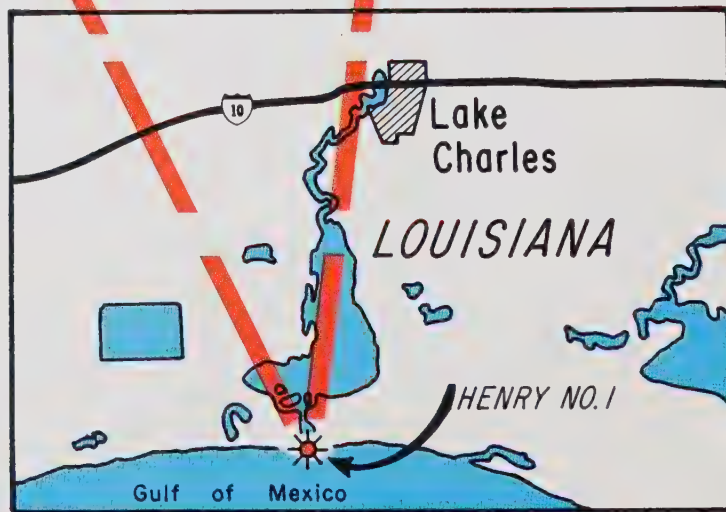
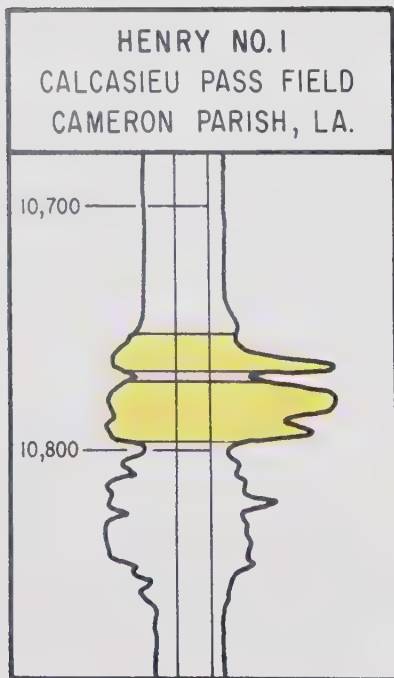
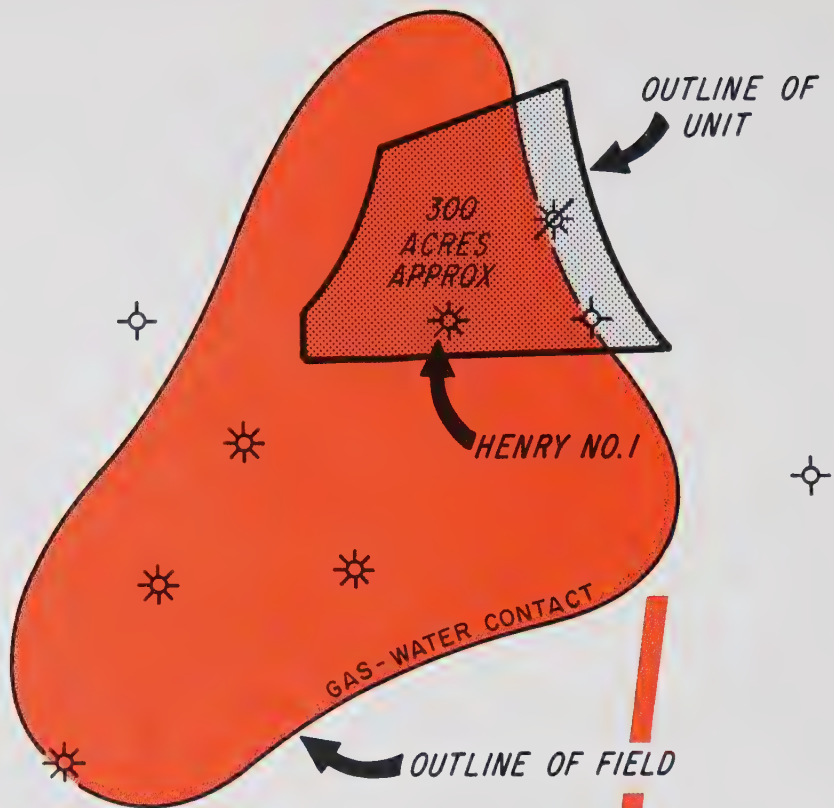
Mindamar has a ten per cent working interest in a consortium of Canadian and European companies that has acquired a non-exclusive prospecting permit off the West Coast of Ireland. The group has undertaken geological and geophysical studies which will enable the consortium to bid on specific areas when such bids are requested by the Irish Government. The area is of importance, and if the consortium can eventually secure offshore holdings in this area, it could be of importance to Mindamar.



NOTE:
STRUCTURE CONTOURS ON A
PENNSYLVANIAN HORIZON MARKER

LIPAN FIELD

HOOD COUNTY, TEXAS



Auditors' Report

To the Shareholders of
Mindamar Energy Resources Limited:

We have examined the consolidated balance sheet of Mindamar Energy Resources Limited as at December 31, 1973 and the consolidated statements of income and deficit, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 22, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants.

MINDAMAR ENERGY RESOURCES LIMITED

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

December 31, 1973

(with comparative figures at December 31, 1972)

ASSETS

CURRENT ASSETS:

	1973	1972
Cash and interest-bearing deposits	\$ 268,177	\$ 16,369
Marketable securities, at lower of cost or market (quoted market value \$84,326 in 1973 and \$84,283 in 1972) (note 3)	85,786	88,549
Accounts receivable (including due from shareholder of \$2,950) ..	4,791	
Deposit on pipe (refunded in full subsequent to December 31, 1973)	557,446	
	916,200	104,918
Oil and gas properties and preproduction expenditures, at cost (notes 3, 4, 7 and 9)	3,140,025	
Deferred exploration expenditures, at cost (notes 5 and 6)	263,886	
Furniture and equipment, at cost less accumulated depreciation of \$162 (note 3)	4,234	
Deferred financing expenditure (note 9)	150,000	
	<u>\$4,474,345</u>	<u>\$ 104,918</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable (including \$55,739 due to shareholder)	\$ 147,764	\$ 400
Note payable to shareholder (including accrued interest of \$5,268) (note 8)	843,002	
	<u>990,766</u>	<u>400</u>

Shareholders' Equity

Capital —

Authorized:

7,500,000 shares without par value (note 1)

Issued:

4,423,825 shares (2,300,002 at December 31, 1972) (note 6)

	4,146,667	596,668
Contributed surplus	643,335	643,335
	<u>4,790,002</u>	<u>1,240,003</u>
Deficit	<u>(1,306,423)</u>	<u>(1,135,485)</u>
	<u>3,483,579</u>	<u>104,518</u>
	<u>\$4,474,345</u>	<u>\$ 104,918</u>

On behalf of the Board:

EVAN T. DONALDSON, Director.

W. C. CAMPBELL, Director.

(See accompanying notes)

Consolidated Statements of Income and Deficit

For the year ended December 31, 1973

(with comparative figures for 1972)

Income

Income:	1973	1972
Interest (less interest expense of \$12,893 in 1973)	\$ 1,010	\$ 1,412
Expenses:		
Accounting and audit	9,459	350
Administrative fee	4,250	1,500
Annual meeting and report	1,762	633
Depreciation	162	
Financing fee	50,000	
Government fees and taxes	1,945	60
Legal	54,785	400
Miscellaneous-office	9,692	244
Office rent	4,648	
Secretarial service	3,326	
Stock transfer and listing fees	9,118	640
Telephone and telegraph	7,922	
Travel	12,117	
	<u>169,186</u>	<u>3,827</u>
Write-down of marketable securities to market value	2,762	1,200
Exploration expense		600
	<u>171,948</u>	<u>5,627</u>
Loss for the year	\$ 170,938	\$ 4,215
Loss per share	<u>\$0.039</u>	<u>\$0.0018</u>
Deficit		
Balance, beginning of the year	\$1,135,485	\$1,131,270
Loss for the year	170,938	4,215
Balance, end of the year	<u>\$1,306,423</u>	<u>\$1,135,485</u>

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1973

(with comparative figures for 1972)

	1973	1972
Working capital, beginning of the year	\$ 104,518	\$ 108,733
Funds were provided by:		
Issue of shares *	3,549,999	
Funds were expended on:		
Loss for the year	170,938	4,215
Less depreciation included above	162	
	<u>170,776</u>	
Oil and gas properties and preproduction expenditures net of recoveries (notes 4 and 9)	3,140,025	
Deferred financing expenditures	150,000	
Deferred exploration expenditure	263,886	
Furniture and equipment	4,396	
	<u>3,729,083</u>	<u>4,215</u>
Decrease in working capital	179,084	4,215
Working capital (deficiency), end of year	<u>\$ (74,566)</u>	<u>\$ 104,518</u>

* Includes shares issued for other than cash, see note 6.

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1973

1. Change of name and authorized capital

By articles of amendment dated June 25, 1973 the company changed its name from United Mindamar Metals Limited to Mindamar Energy Resources Limited (the company) and increased its authorized capital from 5,000,000 shares without par value to 7,500,000 shares without par value to be issued for a consideration not to exceed \$7,500,000.

2. Consolidation of new subsidiary

A wholly-owned subsidiary, Caliph Resources, Inc. (Caliph), the principal operating company, was incorporated as a wholly-owned subsidiary under the laws of the State of Texas during the year ended December 31, 1973.

The accounts of this subsidiary which have been consolidated with those of the company as at December 31, 1973 are maintained in U.S. dollars, and have been translated into Canadian dollars at the current rate of exchange.

3. Summary of significant accounting policies

Oil and gas properties and deferred exploration expenditures —

The companies use the full-cost method of accounting for oil and gas leases under which all costs incurred in the acquisition, exploration and development of oil and gas reserves, including the cost of unproductive wells and dry holes, are capitalized. These costs will be amortized over production from the total estimated proven reserves developed.

Depreciation —

Depreciation of furniture and equipment is provided on the straight-line method based upon estimated useful lives of eight years.

Marketable securities —

At both December 31, 1972 and 1973 the market value of one security had temporarily declined below cost. However, because the market value increased to an amount in excess of cost subsequent to the year ends no write-down was made in either year.

4. Oil and gas properties and preproduction costs

Principally all drilling of oil and gas properties was performed under agreements whereby Caliph was committed to a base acquisition and drilling program with a third party. Under the majority of the agreements the company and Caliph are required to reassign a 25% working interest (subject to the landlord and overriding royalties) in each operating well that is developed, after all drilling and completion costs have been recovered.

Gulfstream Resources Management, S.A. (Gulfstream), has an option to purchase, at the companies' cost, a 25% interest in substantially all oil and gas properties acquired by the

company and Caliph in North America, subsequent to March 8, 1973. As at December 31, 1973, Gulfstream has exercised this option on all properties covered by the agreement.

Oil and gas properties and preproduction expenditures, at cost, net of Gulfstream participation, consist of the following:

Lease acquisition and drilling costs	\$3,117,472
Engineering, evaluation and lease operator costs	22,553
	<u>\$3,140,025</u>

Caliph has entered into a long-term contract for the sale of the bulk of its gas production from the State of Texas. The agreement contains clauses permitting the sale price to be redetermined at periodic intervals.

5. Deferred exploration costs

Deferred exploration costs represent the costs to the company of participating in oil and gas consortiums exploring off the coasts of Ireland, the Netherlands and the State of Qatar. Under the terms of the consortium agreements the company is required to pay its proportionate share of the exploration costs in each area.

6. Capital stock and share options

(a) Capital stock

(i) Issued during the year —

During the year ended December 31, 1973 the company issued 2,058,823 shares, (including the shares referred to in notes 6(b) and 9) for \$3,484,999 cash and an additional 65,000 shares in connection with the company's participation in the Irish and Netherlands consortiums referred to in note 5. Under the terms of the consortium agreements the shares were valued at \$65,000.

(ii) Commitments to issue shares subsequent to December 31, 1973 —

The company is committed to issue a further 25,000 shares in connection with the Irish consortium referred to above subject to the consortium fulfilling certain conditions.

The company is also committed to issue up to a maximum of 161,000 shares (subject to the approval of the regulatory authorities) in connection with the acquisition of a gas well in the State of Texas after a final evaluation based on actual production.

(b) Share options

During the year ended December 31, 1973 the company granted share options to directors and senior officers of the company to purchase 150,000 shares at \$1.00 per share and 50,000 shares at \$1.70 per share. These options were exercised during the year.

7. Other commitments

Caliph is committed to drill oil and gas wells in 1974, at a total estimated cost approximating \$300,000.

8. Note payable to shareholder

The 9½ % note payable to International Mogul Mines Limited, (Mogul) maturing on March 31, 1974, is to be repaid out of the proceeds of the bank borrowings referred to in note 9.

9. Mogul agreements

As of November 19, 1973 the company and Caliph sold to Mogul:

- (a) 200,000 shares of the company for \$850,000 cash,
- (b) a 25% interest in the companies' 75% working interest in certain oil and gas leases for a cash consideration of \$467,000, representing the companies' cost thereof, and
- (c) certain oil and gas royalty rights, which cost the companies \$250,000, for \$100,000 cash.

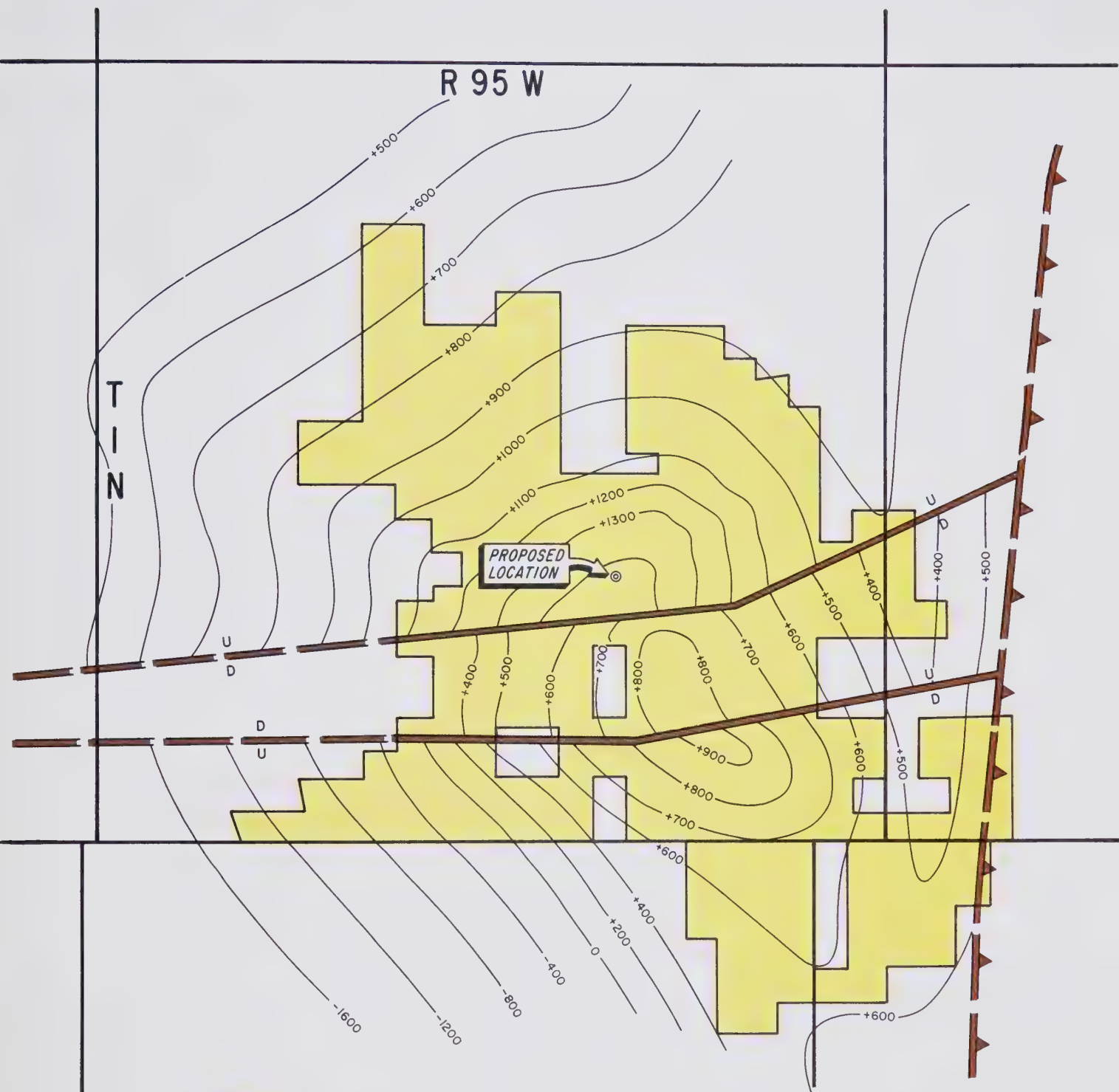
In consideration for the \$150,000 difference arising on the disposition of the above-noted oil and gas royalty rights, Mogul has agreed to guarantee the future bank borrowings of the company up to \$2,500,000 for a three-year period. Accordingly, the \$150,000 has been treated as a cost of financing and it will be amortized as a charge to operations over the next three years. This guarantee is secured by a pledge of the companies' oil and gas leases in the State of Texas and the companies have agreed to repay the bank borrowings out of the proceeds of the sale of any assets or any new financing, with minimum annual payments equal to 50% of the net proceeds of future oil and gas production.

10. Income taxes

For U.S. tax purposes, Caliph must expense intangible drilling and development costs in the year incurred and costs attributable to non-productive leases in the year abandoned. As a result of this at December 31, 1973 Caliph had income tax loss carry-forwards, expiring in 1978, amounting to \$1,758,000 available to offset future taxable income.

11. Remuneration of officers and directors

Remuneration of officers and directors in the year ended December 31, 1973 amounted to \$4,250.




 ACREAGE IN WHICH MINDAMAR
HAS AN INTEREST

POWELL PARK PROSPECT RIO BLANCO COUNTY, COLORADO STRUCTURE CONTOURS TOP MESA VERDE

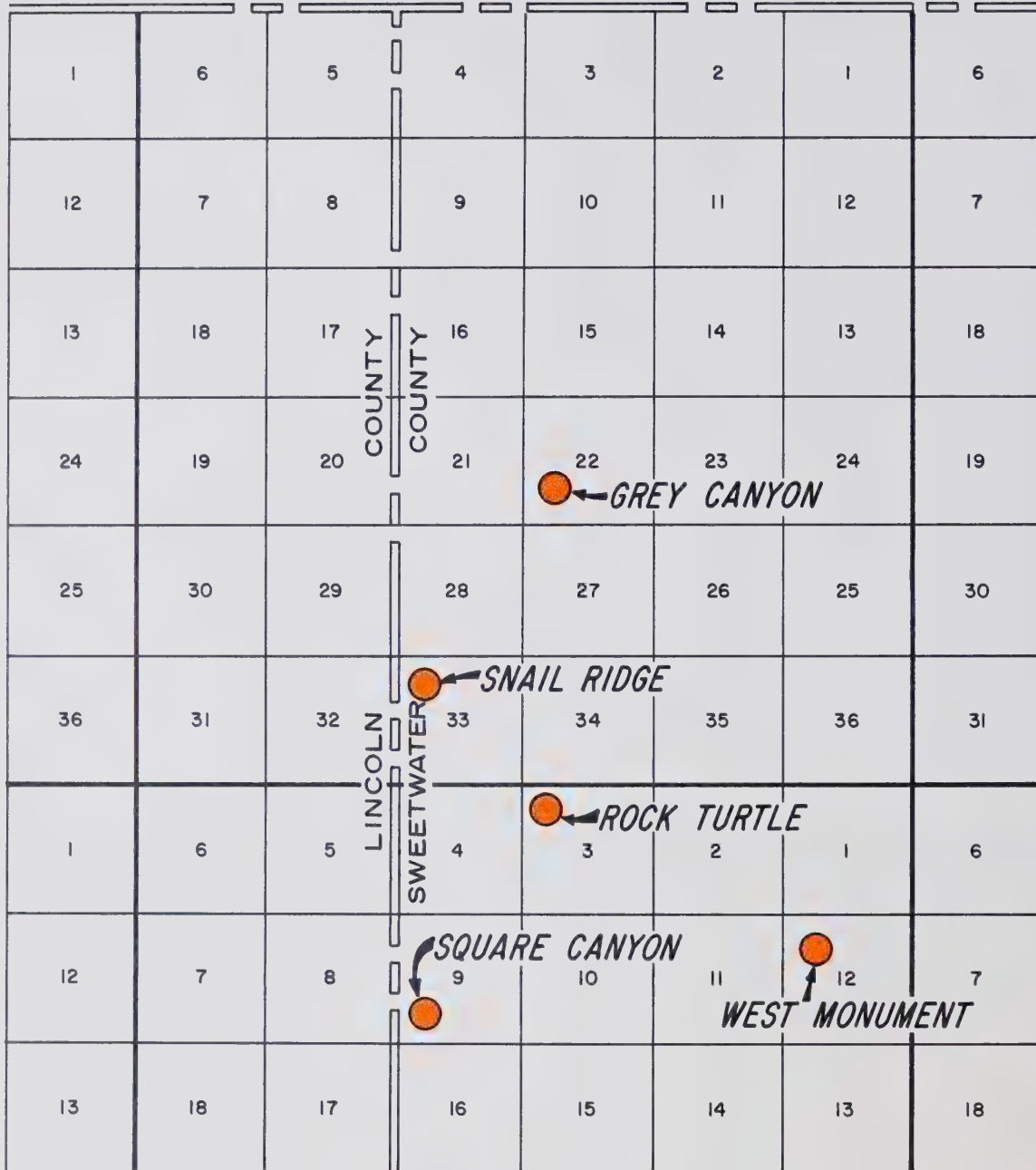
CONTOUR INTERVAL: 100 FEET



R III W

SUBLETTE

COUNTY



BIG PINEY - LA BARGE AREA
SWEETWATER COUNTY, WYOMING





